A Surely. Your Honor, what we attempted to do in this analysis is to use the information included in the plan to estimate the recovery of the senior creditors claims, including post-petition interest, given a mid point valuation of 2 billion 75 million.

Q And could you elaborate on that statement and show the Court how --

A Sure -- happy to do that. The original plan -- the original valuation included in the plan was 1.5 billion. The updated valuation, which we're adding the two valuations together provided by UBS and CS First Boston and we now have a $1.75 billion valuation under what I'll call the original plan updated valuation. The original plan adjusted for market is our best estimate of what would happen if you believe the market generally would have impacted Genesis consolidated in the same way as it impacted the market. That would provide 1.9 billion and then our valuation is 2.75 billion.

We've subtracted the net debt. We've heard prior testimony that questioned that net debt analysis. We presume the cash on hand at closing was an appropriate offset to the debt and preferred amount. That is what we believe to be a normal approach to identifying the total value available for distribution.

We identified the recovery for the senior lenders, including their notes and preferred at face. We identified the

new and common equity. We did not include in this analysis a dilution factor. That is an appropriate analysis to incorporate here, and we would say that that would have impacted the recovery by approximately about 3 percent or so. So, the net recovery, including that for the senior creditors, would have been around 102 percent, not taking into account additional adequate protection payments which Mr. Schulte included in his presentation, which if one were to include that, would result in approximately 104 percent payment to the senior creditors. We don't, for purposes of the presentation Mr. Schulte made, we don't necessarily agree with his adjustment to our valuation using the 214 million times 9.4. We've talked through why we believe the right numbers are there and we've identified why we believe the 25 is an appropriate offset for the net debt and preferred.

So, Your Honor, in this context, at midpoint valuation, this implies a recovery of approximately 102 to 105.7 percent of total claims, including post-petition.

Q And the lower number, the 105.7 is shown in the Evercore valuation, and again the lower point number results from your analysis of the warrant exercise issue, is that correct?

A That's correct.

Q And is there a graphic description of this creditor recovery -- senior lender recovery shown on page 26?

A Well, on page 26 we just -- we use a bar graph to show

what the recoveries implied under this analysis are, and we use the dot lines to show the claim amount, both including post-petition interest and not including post-petition interest. So, in our valuation you see, and actually in the original plan adjusted you see that both bars penetrate some of the lines or one of the lines at least in one case and both in the other.

Q With the senior lender claims coming in at 1 billion 128 million including post-petition interest. And that's the one dotted line, is that correct, the top?

A That's correct.

Q And the lower dotted line is that $998 million figure which does not include post petition interest?

A That is correct.

MR. PRIMPS: Your Honor, at this time I would ask that GMS-8 be entered as an exhibit in the record?

THE COURT: Absent objection it will be considered.

MR. PRIMPS: At this time I would pass the witness for cross-examination.

THE COURT: All right.

MS. GUERRERA: Joe Guerrera from Weil Gotshal for the Genesis debtors.

THE COURT: Actually, I just noticed the time. We can go forward now or -- where are we otherwise? I suspect that there may be several cross-examiners.

MR. ZELM: Possibly, Your Honor.

MR. WALSH: I think our cross-examination will probably be half an hour --

MS. GUERRERA: Half an hour, Your Honor.

MR. WALSH: -- or a little bit longer. So, maybe it does make sense to take a break.

THE COURT: Yes. That's fine. All right. We --

MR. WALSH: Your Honor?

THE COURT: Yes.

MR. WALSH: Your Honor, before we take the break though, we, I think, did resolve one more objection. If we could put that on the record --

THE COURT: Certainly.

MR. WALSH: -- so I think that will just take a minute.

THE COURT: Certainly.

MR. PRIMPS: Can the witness step down then and --

THE COURT: Yes, of course.

MR. LEON: Good afternoon, Your Honor. John Leon, Fox, Rothschild, O'Brien and Frankel, appearing today for objecting creditor JSM Company.

Your Honor, Allison Berger of my firm had been handling this matter. She was admitted pro hac vice in this case. I represent to the Court our local counsel, Neil Levitsky (phonetic), filed my pro hac vice application last week.

Your Honor, JSM Company filed an objection to confirmation. We have reached an agreement with the debtor which I'd like to place on the record now. Our objection among other things was that our claim was not treated in the plan, and also that the treatment of our construction contract was not clear.

The agreement is as follows. The construction contract, which is more particularly identified in the objection, will be deemed rejected as part of the plan confirmation order. The construction lien that is also discussed in our objection will not be discharged or impaired by entry of the confirmation order.

We file our rejection damages claim within 30 days of entry of the confirmation order. Within 60 days of the filing of the rejection damages claim, the debtor will file an objection to any of our claims that are filed: rejection damages, unsecured claim, secured claim. If no objection is filed within that 60 day period, the claims will be deemed allowed as filed.

The claim -- the secured claim of JSM Company will be treated as a Genesis other secured claim in Class G1, and the debtor will pay that claim in cash in the amount determined by this Court after the filing of the anticipated objection. That amount will be paid within 10 days of the order allowing the claim as secured after that order becomes final, within 10 days

of it becoming a final order. These provisions will be incorporated in the confirmation order, Judge.

We also agree, but it need not go in the confirmation order, there is an issue with respect to potential additional liens on the property that may impact on our relative rights, and the debtor's attorneys have ordered an updated lien search and have agreed to provide a copy of that to us within five days after receipt.

THE COURT: All right.

MR. HOLTZER: Your Honor, may I be heard on that?

THE COURT: Certainly.

MR. HOLTZER: Gary Holtzer, Weil, Gotshal and Manges for Genesis. The description given by counsel is accurate, although I would like to make one or two adjustments to it. First of all, the agreement presupposes that Your Honor confirms the case because it is treatment that would be afforded in the confirmation order as it relates to this claim.

Secondly, Your Honor, what we have here is a situation where Genesis will invariably be assuming a particular ground lease. That ground lease may or may not have defaults on it that result from mechanics liens placed on the property that is the subject of the ground lease by the creditor in this case. The creditor is itself a Chapter 11 debtor. The creditor itself has subcontractors who have also placed liens on the ground lease.

The sole concern of the debtors is that in curing any defaults under the ground lease that arise from these mechanics liens that the debtors do not pay twice. And so we will -- we intend to object to the claims in order to preclude that from happening. Should it occur that there cannot be an agreement amongst the subcontractors and the main contractor in this case, we would propose that Your Honor simply take steps to allow us not to pay twice by either having us escrow the funds or some other procedure. That's our sole concern.

THE COURT: That's fine. All right, thank you. We'll reconvene at 1:45.

(Lunch Recess)

MS. GUERRERA: Good afternoon, Your Honor.

THE COURT: Good afternoon.

MS. GUERRERA: Again, I am Jo Guerrera from Weil, Gotshal and Manges for the Genesis debtors.

CROSS-EXAMINATION

BY MS. GUERRERA:

Q Good afternoon, Mr. Grillo.

A Good afternoon.

Q You're employed at Evercore, is that correct?

A Yes.

Q Evercore doesn't have a healthcare department, does it?

A No, it does not.

Q And Evercore doesn't have a research department, does it?

A That's correct.
Q And Evercore never itself issues research reports regarding the healthcare industry, does it?
A That's correct.
Q And you've never written any articles regarding the healthcare industry?
A That's correct.
Q And you've never engaged in any lobbying efforts regarding proposed regulations on the healthcare industry?
A I personally, that's correct.
Q And in the normal course of your business at Evercore, Evercore doesn't regularly check the stock prices of the publicly traded long term care companies, is that correct?
A That's correct.
Q Prior to this case you had never issued a valuation report for a healthcare company, is that correct?
A That's correct.
Q And you've never managed a long term care company, right?
A That is correct.
Q And you've never managed an institutional pharmacy business, is that correct?
A That is correct.
Q You've only worked on this case for a month, correct?
A That's approximately correct.
Q And you've never met with anyone at Genesis to try and

learn about the company, is that correct?
A That's correct.
Q And you've never met with anybody at Multicare to try to learn about the company?
A That's correct.
Q Now, in preparing your valuation report, which I believe has been marked as GMS-8, you personally only reviewed about 12 to 18 documents, is that correct?
A That is correct.
Q Do you have the report up there with you, Mr. Grillo?
A Yes, I do.
Q Can you turn to page 6 of your report?
A Yes.
Q On page 6 I believe you referred to what you call favor economic trends in the healthcare industry, is that correct?
A Can you just direct me more specifically?
Q Sure. On page 6 you talk about demographic trends --
A Yes.
Q -- being favorable?
A Yes.
Q And I think on page 7 and 8 as well you talk about favorable economic trends, is that correct?
A Yes, that's correct. Yes.
Q And you don't see any negative economic trends in the healthcare industry, is that correct?

A That's correct.

Q You wouldn't consider nursing shortage a negative economic trend?

A Well, just to be specific, I wouldn't view that as a trend. I would view that as a negative situation as opposed to something that's happening over time.

Q Is that negative situation reflected anywhere in your report?

A Not specifically.

Q Would you consider increasing labor costs a negative economic trend?

A I would consider that a negative impact, yes.

Q And is that listed or referred to anywhere in GMS-8?

A Not that I can recall.

Q And would you consider increasing professional liability insurance costs a negative economic trend?

A Yes.

Q And is that trend reflected anywhere in GMS-8?

A Not specifically.

Q How about the fact that the budget surplus is evaporating?

A That is not specifically incorporated.

Q But you do recognize that that's an economic risk to the future of the healthcare industry?

A Yes, I do.

Q And you do recognize that there is a risk that over time

payors may not be able to pay for their healthcare?
A I take that into account and I understand the fact that there may be questions as to the affordability of the service over time.
Q And is that risk reflected anywhere in GMS-8?
A It's not specifically. It's indirectly incorporated by virtue of the fact that these risks are the same risk for the comparable companies, and as a result, the market place has taken that into account.
Q On page 6 of your report, as I said, you list a number of what you call favorable trends. Isn't it true that the only source of information you used for the opinions on the favorable trends expressed on page 6 is a cite to the U.S. Census Bureau?
A That's correct.
Q Can you please turn to page 7 of GMS-8? At the top of the page you appear to be opining that the legislative environment for the healthcare industry is improving, is that correct?
A Well, the statement is an attempt to express that the reform has taken place and is expected to continue.
Q And isn't it true that the only basis you have for making the statement that you expect the reform to continue are public statements by -- made by the Bush administration?
A That's correct.
Q And you've never met with anybody on Capitol Hill

regarding prospective legislative relief, is that correct?

A That is correct.

Q In the next dash, line under the one we just referred to on page 7 of your report, you state that 2 billion is expected to be provided as relief to the long term care sector under the Benefit Improvement Protection Act of 2000 over the next 5 years. Do you see that?

A Yes.

Q Now, there's a cite at the bottom of that page to a Standard -- article dated June 21, 2001, is that correct?

A Yes.

Q Now, you had never actually read that article before issuing your report, had you?

A That's correct.

Q You are aware that the relief afforded by BIPA Sunset in -- Sunset in 2002 unless there is future legislative action?

A Yes, I am aware of that.

Q And no one has ever provided you any information suggesting that the BIPA benefits will in fact go beyond 2002, is that correct?

A That's correct.

Q Now, you testified that for purposes of your analysis contained in Exhibit 8 that you used a 220 million EBITDA figure for combined Genesis and Multicare, is that correct?

A Yes.

Q And in justifying your 220 million EBITDA you stated that the company's projections in the plan are 215 and that the company is 4 million ahead of plan, is that correct?

A I think I testified that that was one of the -- one of the factors that we used in judging whether the 220 was an appropriate number to use.

Q But isn't it a fact that Genesis on a standalone basis is ahead 4 million, but that Multicare is behind 4 to 5 million?

A I believe that is correct.

Q So, isn't it true that on -- as a whole, the company is on plan?

A That's correct.

Q Isn't it a fact that you just exercised a subjective judgment in picking 220 as opposed to another number?

A We used a judgment. I'm not sure how you would characterize it. We took into account the four or five examples of our judgment and we incorporated all of them in coming to the 220.

Q And I think on that judgment you had stated during your testimony that you -- to come up with the 220 you also basically just took one quarter's results and multiplied it by 4, is that correct?

A That was one of the mathematics, yes.

Q And that was the third quarter results that you did that?

A That's correct.

Q You are aware that the third quarter results had the highest level EBITDA of fiscal year 01, isn't that correct?
A I believe that is correct.
Q Have you ever spoken to anyone at Genesis regarding its projections?
A No.
Q Have you ever spoken to anyone at Multicare regarding its projections?
A No.
Q So, I take it you've never met with George Hager, the company's CFO to discuss the projections?
A That's correct.
Q Now, in doing your comparable company analysis, you used three comparables for the long term care sector, is that correct?
A Yes.
Q And they are Manor Care, Beverly and Kindred?
A Yes.
Q Let's talk about Manor Care for a second. Manor Care is the number one company in the long term care industry, is that correct?
A Yes, that's correct.
Q It is valued very high in the market, correct?
A Yes.
Q It has high rates of returns?

A Yes.
Q It has a strong payor mix?
A Yes.
Q In other words, Manor Care is very much less dependant on Medicaid than the other comparable companies?
A That is correct.
Q And of all the possible payors in a company's payor mix, Medicaid is the least advantageous payor?
A That is correct.
Q And that is because state Medicaid has the lowest absolute dollar amount in terms of reimbursements?
A That is usually the case, yes.
Q And also because the states may choose to reduce payments even further in the future?
A Well, there's risk that the states may not be able to afford it and then so the market place is nervous about that risk.
Q Compared to Genesis, aren't Manor Care's operating results much stronger?
A Yes, much stronger, 14 percent versus 9.
Q Now, you don't have an opinion regarding the quality of Manor Care's assets, is that correct?
A Not specifically.
Q Well, let's talk about another comparable company that you used in your comparable company analysis, Beverly Enterprises.

Now, Beverly is more akin to Genesis in terms of payor mix, isn't that correct?
A Yes.
Q And Beverly has approximately the same percentage of Medicaid patients as Genesis?
A I think -- I think they have a little bit more, but not materially more.
Q And Kindred, like Beverly and Genesis, has a high percentage of Medicaid patients?
A Yes. I think Kindred is more -- higher than both.
Q Did you assign a multiple of 10.7 to Manor Care?
A Yes, yes.
Q Did you assign a multiple 7.9 to Beverly?
A I believe that's correct.
Q Did you assign a 7.8 multiple to Kindred?
A I believe that is correct, yes.
Q And your range for Genesis was 8.0 to 10.5 times, is that correct?
A For the long term care side, that is correct.
Q For the long --
A Yes, that's correct.
Q So, isn't it correct that the high end of your multiple range for Genesis and Multicare is 10.5, and that's only .2 times away from the multiple of the number one company in the long term care industry?

A That is correct.

Q Isn't it correct that Beverly, the company that actually has a similar payor mix to Genesis, is outside of Genesis's range on the low end?

A Yes, that is correct.

Q And isn't it correct that the effect of your range of multiples for the debtors is to peg them essentially right in the middle of Beverly and Manor Care?

A That's correct.

Q In fact, isn't the midpoint of your range 9.25 times?

A That's correct.

Q And isn't it true that your reasoning for placing and Manor Care in the midpoint is your belief that there is room for improvement in Genesis's EBITDAR margins relative to Beverly's?

A That's correct.

Q But you haven't done any analysis of the company's EBITDAR margins to arrive at this conclusion, have you?

A We haven't done any detail analysis. We've looked at the company's public documents. We've looked at Genesis's public documents. We've looked at the plan and the plan has the margins for the Genesis consolidated company staying primarily the same, principally the same over the five year period, and we find that unusual. We would expect that there would be improvement in that over that period of time.

they're not performing up to a level that Beverly has shown you can perform at with those encumbrances. So our expectation is that they should be able to have those improvements.

Q But again, you don't any specific recommendations as for -- as to how this particular company can improve?

A That's correct.

Q Have you analyzed the profits per bed of the different comparable companies in your analysis?

A No.

Q In doing your comparable analysis for the institutional pharmacy sector, you used Omnicare as your comparable, is that correct?

A That's correct.

Q And Omnicare is the number one provider in that business, isn't that correct?

A That is correct.

Q And you assigned an 11.1 2000 multiple, isn't that correct?

A That is correct.

Q And you assigned NeighborCare a multiple of 9.5 times to 10.5 times, isn't that correct?

A That's correct.

Q And your decision to give NeighborCare only a slight discount from Omnicare is purely subjective, is that correct?

A That's correct.

Q And isn't it correct that in coming up with your multiple range for NeighborCare, you also took into account your opinion that NeighborCare could improve?
A That is correct.
Q Let's discuss your discounted cash flow analysis. Isn't it correct that you again use a 220 million EBITDA number as opposed to the company's lower number?
A That is correct.
Q And isn't it correct that you applied a 9.25 times multiple at the termination period which is the midpoint of your valuation range from the comparable company analysis?
A That's correct. Approximately midpoint. I don't think it's exactly, but --
Q So if you --
A -- approximately.
Q So if you had come up with an incorrect multiple in the comparable analysis, your DCF analysis would also be flawed, is that correct?
A Yes, that would be correct.
Q Let's take a look at your senior Genesis lender recovery analysis on page 25 of your report, and do you see the line item titled less net plan debt and preferred?
A Yes.
Q And what is the number on that line?
A 641.6 million.

Q Now, in calculating the net plan debt, you reduced the net plan debt by 25 million, isn't that correct?
A That's correct.
Q And you did that because you assumed that the 25 million would be available to the company post emergence, isn't that correct?
A That's correct.
Q But isn't it a fact that the 25 million in cash on the balance sheet is being used to class M2 and is not being used to pay the -- pay down the plan debt?
A That's -- I do not know the answer to that. The plan assumes 25 million in cash on hand at closing. That's excess cash on hand. That's cash on hand which we net against debt and preferred.
Q Well, assume for the moment that on page 24 of the disclosure statement, and I'll be happy to show it to you if you'd like, that there is a statement that 25 million on the balance sheet is being used to pay class M2. If it does -- if that money does not exist on the opening balance sheet, would you still reduce the plan debt as you did on page 25 of your report?
A No.
Q And that would affect your line titled equity value, isn't that correct?
A That's correct.

Q And that would make the equity value lower by 25 million, isn't that correct?

A That's correct.

Q Bringing your number down to 1.4 billion 8 million?

A That's correct.

Q And in calculating the recovery for senior lenders on page 25, you did not take into account -- or you did -- you altered your analysis in taking account the exercise of warrants, is that correct?

A We testified that if you were to take into account the full extent of the warrants there would be a reduction of approximately 3 percent in the recovery.

Q Okay. Now, your senior Genesis lender recovery analysis is keyed off of the midpoint of your enterprise valuation range, is that correct?

A That is correct.

Q And if your valuation analysis is wrong, your senior Genesis lender recovery analysis would be wrong as well, isn't that correct?

A That is correct.

MS. GUERRERA: I have no further questions on cross.

THE COURT: All right. Sir?

MR. ZELMANOVITZ: Menachem Zelmanovitz of Morgan, Lewis and Bockius on behalf of Mellon Bank as the agent for the senior lenders.

Colloquy

CROSS-EXAMINATION

BY MR. ZELMANOVITZ:

Q Mr. Grillo, I'll be very, very brief. Who have you been retained by in this case?

A GMS.

Q And GMS is the objector to the plan, is that correct?

A That's correct.

Q Now, isn't it true that based on the low end of your valuation, the senior lenders do not recover 100 percent of their claims?

A That is correct.

MR. ZELMANOVITZ: No further questions.

THE COURT: Anyone else? All right, thank you, sir.

MR. PRIMPS: That concludes the presentation of GMS --

THE COURT: All right.

MR. PRIMPS: -- in the evidentiary stage of this proceeding, Your Honor.

THE COURT: Thank you. Are there any other objectors who wish to present testimony? Yes, sir?

MR. JENKINS: Yes, Your Honor. David Jenkins.

THE COURT: All right.

MR. PRIMPS: Your Honor, just one proviso there, and that is that the -- I haven't gotten a response on precisely how we're getting that Lanassa material to you.

THE COURT: The response is simply to package it as one exhibit and to have it considered globally, isn't that correct, the documents appended to the deposition as well as the deposition.

MR. STROCHAK: That's correct, Your Honor. Adam Strochak for Weil, Gotshal. I took a look at it over the lunch break. It seemed to me that Exhibits 5, 6, 7, and 8 didn't have much relevance. I don't know if the Court needs to detain itself with those. Other than that, we have no objection to the exhibits to the deposition.

THE COURT: Do you care about 5, 6, 7, 8?

MR. PRIMPS: We're amenable to omitting them, Your Honor.

THE COURT: All right. With those omitted, we will accept. Perhaps a marking is appropriate. I guess we're up to GMS-9 or no? No, 12. Maybe I should have a place too. What's the date of that deposition?

MR. PRIMPS: It is August 15, 2001, Your Honor.

THE COURT: All right, thank you. Please come up.

MR. JENKINS: Thank you, Your Honor. Good afternoon again, Your Honor. David Jenkins for objector Charles L. Grimes, and we call our one witness, Mr. William R. Becklean.

W I L L I A M B E C K L E A N, WITNESS, SWORN

THE CLERK: Please state your name for the record, spelling your last name.

THE WITNESS: William L. Becklean, B-E-C-K-L-E-A-N.

DIRECT EXAMINATION

BY MR. JENKINS:

Q Good afternoon, Mr. Becklean.

A Good afternoon.

Q You may want to move the --

A Actually it says please don't touch it, so I'll leave it just the way it is.

Q Okay. Before we begin on your analysis, let's get a little background of where were you educated, Mr. Becklean?

A I have a Bachelor's Degree in Electrical Engineering from Yale University and a Master's Degree in Business Administration from Harvard.

Q All right. When did you get your degree from Yale?

A 1958.

Q When did you get your MBA from Harvard?

A 1968.

Q At either of those institutions, did you receive any honors?

A I was a Baker Scholar at Harvard Business School and graduated with high distinction.

Q Thank you. I notice a gap in your education history between the time you were at Yale and between the time that you graduated from Harvard. How long were you at Harvard, by the way?

A Two years.
Q All right. That leaves an eight year gap. Where were you during those eight years?
A I spent four years as an officer in the Navy, temporary assignment to the U.S. Atomic Energy Commission, and another four years as a civilian employee of the Navy, all eight years on the staff of Admiral Rickover (phonetic) who ran the Navy's nuclear propulsion program.
Q All right. Without getting into extensive detail, can you describe briefly to the Court what you did on the staff of Admiral Rickover?
A We managed the Navy's entire nuclear propulsion program.
Q All right. Let's turn now to your work background. Can you briefly tell me from 1968 to the present where have you worked?
A I've been engaged in the security analysis in investment banking business for that whole period of time, initially with a company whose name was originally Bashe (phonetic), became Bashe, Holsey (phonetic), Stewart, Shields, eventually was acquired and became part of Prudential. And I don't know where it is now. Subsequent to that I worked for 10 years at Kidder Peabody, both in investment research and the investment banking side of the business. That was subsequently acquired by GE and then Paine Webber, and in fact now must be part of UBS Paine Webber. And I spent 10 years after that at a regional firm in

Boston called Tucker Anthony, and from there, the last two years as a managing director of technology research at Sun Trust Equitable Securities.

Q Are you still at Sun Trust Equities?

A No. Our Boston office was closed the middle of July and I'm currently an independent consultant.

Q Okay. How old are you, Mr. Becklean, by the way?

A I'm 65.

Q All right. Thank you. During your career, have you specialized in one area of securities analysis as opposed to others?

A Yeah. My specialty has always been high technology companies, primarily with emphasis on telecommunications and data communications equipment.

MR. JENKINS: With that, Your Honor, I offer Mr. Becklean as a financial expert.

MR. STROCHAK: No objection, Your Honor, although I must say it does seem to me that we're getting near the end of the universe of potential healthcare valuation experts.

THE COURT: Sounds that way. All right. We'll certainly hear from Mr. Becklean.

MR. JENKINS: And we will address that point, Your Honor, almost immediately.

BY MR. JENKINS:

Q Mr. Becklean, what was your assignment in this case?

A My assignment -- I beg your pardon. My assignment was to review and evaluate the proposed valuations which were underlying the proposed merger between Genesis and Multicare to form a reorganized Genesis.

Q All right. What business or businesses are Genesis and Multicare in?

A They're in the healthcare business.

Q All right. Picking up on Mr. Strochak's point, I did not hear in your description of your career anything to do with healthcare analysis. Do you believe someone with your background can adequately analyze the material in this assignment?

A I believe I can and I make no pretense of being a healthcare analyst or bringing any particular expertise related to the healthcare industry.

Q All right. What --

A I think --

Q Excuse me.

A I think my expertise is in valuating income streams. Fundamentally investors value earnings and earnings growth and I, in the course of my review and evaluation, as you will see as we go through it, have made no I would say subjective judgments on the quality of these businesses as healthcare businesses. I have been willing to adopt the assumptions made by the investment bankers hired by the respective companies and

the company in terms of the fundamental assumptions about the business..

I think that expertise, industry expertise of an analyst primarily is used to develop cash flow and earnings projections and understand the risks associated with those. My expertise that I bring to this case and to this assignment specifically, I believe was the ability to value income and cash flow streams.

Q All right. Thank you. I may have interrupted you a minute ago when I was asking what you did, so let me continue on that. What did you do to complete your assignment?

A Well, the first thing I did was I reviewed three -- I relied primarily on three documents. One was the disclosure statement. The other two documents were the reports delivered on Genesis by Warburg and on Multicare by Credit Suisse First Boston.

Q And which reports were these by Warburg and Credit Suisse First Boston?

A They were the reports in the April time frame. I also used access to public information as regards 10 Q's, 10 K's, quarterly reports, other publicly available information

Q All right. Since the time that you prepared your report, have you had an opportunity to review the updated Warburg and Credit Suisse First Boston reports?

A I saw those for the first time the beginning of this week.

Q All right. By the way, let me just backtrack for one question. Who hired you for this assignment?

A I was hired by Charles Grimes.

Q Did you know Mr. Grimes prior to this assignment?

A Yes, I -- yes, I did.

Q How long have you known him?

A I've known Mr. Grimes for 45 years.

Q You touched on this a moment ago, but let me get into it further before we get on to your actual report. What sort of agreements, if any, did you have with the Warburg and Credit Suisse First Boston approaches?

A I agree on the -- specifically on the Warburg and the First Boston reports.

Q Yes.

A I agree with -- I agree with the evaluation technologies that they applied. In other words, I agree with using comparable company analysis, discounted cash flow analysis, and comparable transaction analysis of which the third is immaterial because they didn't use it, but I fundamentally agree in using both of those techniques.

Q All right. Did you have any other agreements with their approaches or methodologies?

A I -- it was not necessarily an agreement, but I was willing to accept the comparable companies that they selected in the comparable company analysis and I took at face value,

without trying to verify it in any way, the cash flow projections which were in those reports, which the reports asserted come from management.

Q Just so we're clear on this, did you change in any way the cash flow projections that you found in the Warburg and Credit Suisse First Boston reports?

A No, I didn't.

Q Did you have any disagreements with the methodology or approach Warburg and Credit Suisse First Boston in their reports?

A Well, I have a -- I have some disagreements in the application of the techniques, but those relate primarily to the overall valuation methodology being applied to the combined entity.

Q Could you explain that please?

A Yes. As stated in the disclosure statement, the methodology that's being used to value Genesis was to value each of the two independent companies as an independent stand alone company. That would be Genesis and Multicare. The methodology was to value each one of those independently and then add those independent valuations together to give you the valuation of the total combined entity.

Q Did you disagree with that approach?

A I do disagree with that approach.

Q Why?

A Because I don't believe that that methodology reflects the full value of the combination of these two companies. I think that -- I think that the Warburg and the CSFB valuations very clearly value these as independent stand alone companies and penalize them as independent stand alone companies, whereas the disclosure statement very clearly states that the objective of merging the two companies is to provide a -- that will create a value in the total entity that's larger than the sum of the two.

Q You testified just a moment ago that you believe that the Warburg and the Credit Suisse First Boston approaches penalize the companies. Could you explain that please?

A Well, I think yes. I mean, and you have to get sort of specific to do that, but I think they do it in, primarily in the selection of the multiples that are being applied in the comparable company analysis, and in the case of one of the valuations in the selection of the weight of average cost of capital in the DCF calculation.

MR. JENKINS: All right. Maybe this will best wait until we look at your report. Let me turn to your report, Mr. Becklean. Your Honor, may I approach the witness with a copy of his report? Your Honor, I have a copy for the Court. Your Honor, Mr. Becklean has asked for a glass of water.

THE COURT: Of course.

MR. JENKINS: Thank you, Your Honor.

BY MR. JENKINS:

Q Do you have your report in front of you, Mr. Becklean?

A Yes, I do.

MR. JENKINS: I suppose for the record we should mark this as CG Exhibit Number 6, Your Honor.

THE COURT: Indeed.

BY MR. JENKINS:

Q Mr. Becklean, could you identify this document, please?

A Yes. This is the document I prepared in fulfillment of the assignment that I accepted from Mr. Grimes.

Q All right. We've heard a lot of valuators today and yesterday, so I don't think it's necessary for you to go into deep background of how one does evaluation, but I think it would be useful if you could explain to the Court, using page numbers in your report if helpful, what you did to complete your assignment from Mr. Grimes.

A I'd be happy to do that. I think that the best place to start is probably on page 9 in which I describe the methodology or the technique that was used by the investments banks to value both Genesis and Multicare. They both used current company valuations of publicly traded companies on a comparable company analysis. They both used the combination of actual and forecast numbers to derive key financial ratios that relate selected operating -- to enterprise value. Discounts were applied to those. The discounted ratios were then applied to

the Genesis and Multicare financial numbers to derive enterprise values for each company on a stand alone basis.

By the way, I think I would add that the explanation that Mr. Schulte gave this morning of the application of those procedures, I couldn't have done any better. I mean, I think he did a terrific job of explaining how that's done, and I would simply say I did -- I tried to do exactly the same thing.

Q All right. Now, on page 9 you set forth what Warburg and Credit Suisse Firs Boston did in their comparable company analysis.

A Right.

Q What -- I'm sorry.

A Let me tell you the differences then as I went through that.

Q Terrific.

A We used the same comparable company valuation technique. We apply the technique only to the merged company, and to get the statistics for the merged company, we simply added the forecast, the financial forecast, together for the two companies, Multicare and Genesis, and did not attempt in any way to enhance those forecasts which presumably came from the company.

We also updated the calculated enterprise values of the comparable companies to reflect their current stock prices and debt structure as of the 17th of August.

Q Let me stop you there, Mr. Becklean. Is there a page in your report on which you set forth what you were just testifying to in terms of an overview?

A I would say that the best overview is on page 14 which is called comparable company analysis in which the top part of that chart shows the fundamental statistics on the comparable companies.

Q All right. I'm sorry. I interrupted you in the middle of describing what you did and the differences between your technique and the Warburg/Credit Suisse First Boston techniques.

A That's fine.

Q Could you continue, please?

A I can. Now of course, once you have updated those numbers, you arrive at on the right hand side of the upper portion of page 14, you will see calculated valuation multiples which are the valuation multiples that simply result by doing the division of the financial statistics you're looking at, whether it be EBITDA, EBITDAR and the projected numbers over the enterprise values. So that's really just a calculation.

And the way the investment bankers then used those numbers was to discount those based on the relative qualities of the two different companies. So, my second -- the second piece of the analysis was to analyze the discounts that they applied. And that's done on my page number 15, which is the

next page where you'll see a table that says the analysis, the discounts applied in comparable company valuations by investment banks.

So, in order to try and make some sense out of the discounts that they were applying after you got the calculated numbers on the comparables, I simply did another tabulation which is shown here. And for the UBS Warburg report and the CSFB report, I have listed for Manor Care, Beverly, Omnicare and for CSFB Manor Care and Beverly, the calculated multiples or ratios that are a pure calculation.

The figure that says used are the actual ratios that were used by the appropriate investment bank in getting -- basically hair cutting those ratios, getting a number they're going to apply to Genesis in the case of Warburg, or Multicare in the case of CSFB. And the bold face numbers represent the actual magnitude of the discount that they've taken.

Q These are the bold face numbers on the same line as the word discount, is that correct?

A Discount. So, what it says is that on the 2001 projected EBITDA for Manor Care, which is really the high end valuation which we all acknowledge, they discounted the multiple of 8.9 times by 21 percent to get a figure of 7.0 times. And that's true throughout this whole chart.

And the one thing I discovered as I went through the chart, and I tried to go back through their reports and

reconstruct sort of how you get to the discounts, and how do you get from the calculated number, how do you make an adjustment to an appropriate multiple to apply to Genesis? And my first approach to that was simply lay out a table of numbers and look at it.

The first thing that I observed was they were a little bit all over the map. There was not a lot of consistency to them, and I tried to go back and discover, you know, kind of where those discounts came from. And that led me to one of the assertions which was that when I say that I don't think that you get a fair valuation of the combined companies when you do an individual stand alone valuation of each of these, it really involves the selection of multiples that you're going to apply and how you come about those discounts.

To the best of my ability, as I went back through the Warburg report, it looked to me like they were not giving Genesis any benefit in terms of the multiple discount for the synergy that was being gained from putting it together with Multicare. And I'm not arguing that the cash flows ought to be any different, but I think there ought to be more credit given in the multiple discounts. I don't think you should take the same multiple discount on a stand alone Genesis as you take on a Genesis which by the assertion in the disclosure statement says by putting these two companies together, they're both going to be stronger companies.

So, my fundamental argument is, I don't think you can take the same discount you would take on a stand alone company as you would take on a Genesis once it is merged into the combined company. And the same argument applies to the CSFB discount calculation.

So, let me just go on and summarize what I did with this chart. The next two columns to the right, both in bold face type, again we're on page 15 of my report, says low average discount. So, what I simply did for the low discount on Beverly happens to be the low end of the -- of the multiple range anyway, I averaged the 2 percent and 13 percent and got 7.4 percent. For the high end multiple, which is Manor Care, I averaged the discount that they used at the high end and got 18 percent. I did the same thing for Omnicare, and I did the same thing for the CSFB, you know, high and low for Manor Care and Beverly.

So, I then basically said on a combined basis, what sort of a discount did the investment bankers apply to the long term care portion of the business. So I did a weighted average, weighted on the basis of 2000 EBITDA of the low average discount for both Warburg and CSFB and arrived down at the bottom with an average figure of 9 percent is the average discount they applied to the calculated multiple for the long term care component of the business.

And I did the same thing for the high discount in the

long term care -- turned out to be 19 percent, which by the way, happens to be pretty consistent with other testimony I heard this morning that, you know, the applicable discount to Manor Care was like a 20 percent figure. So, it all seems to hang together. Then for the pharmacy component there was only comparable company, Omnicare. Those came out 26 percent and 15 percent.

Then the next question in my mind was, okay, since these represent the discounts that they've applied, what kind of discount should I apply to the combined companies? And to make that decision, I go back to the disclosure statement which -- no, it's not the disclosure statement. It is primarily the Warburg report. But other testimony I've heard throughout the last two days that I've sat in this courtroom, and that is once these two companies have been combined, it ought to be a company of the relative quality of a Beverly Enterprises.

So, if it's going to be a company that's comparable to Beverly, it strikes me that the discount to Beverly's ratios ought to fundamentally be zero. If it's going to be like Beverly, why wouldn't it have the same ratios that a Beverly has. That's what comparability means in my mind. So, I adjusted the 9 percent average figure that was being used by the investment banks to 0 percent. You can see discount selected for -- beg your pardon, our analysis, long term care component. I took the 0 percent.

Then there was the question of, you know, what did I do with the high end discount, and I used the following logic. Since there's fundamentally no change in the relationship between Beverly and Manor Care, I mean, this transaction is not going to affect the relative strength of those two companies, they differed in the discounts that were being applied by the investment bankers by 10 percentage points, I said I'll keep the same 10 percentage point spread in the discounts. I assigned them a 10 percent discount.

So, I went back then to my comparable company valuation and I applied a 0 percent discount to the ratios I calculated for the high end of the range and I applied a 10 percent discount to the ratios that were calculated -- I beg your pardon. That was for the low end of the range, 0 percent, and a 10 percent discount for the high end of the range. And that was the way I generated the multiples by which I then derived enterprise value for the combined company.

I also used the same methodology as the investment bankers in separating out the long term care component of the business, which was the long term care part of the Genesis business and Multicare added together, and I kept the NeighborCare pharmacy component separate, and in fact chose not to differ whatsoever with the judgment on the part of the investment bankers of a 26 percent low average discount and a 15 percent average discount to the high end. So, I simply kept

those numbers taking the -- having no other -- having no other judgment to bring to --

Q All right. Once you -- I think you may have touched on this briefly, but we should probably tie it together. Once you had these discounts, where in your report did you do something with these discounts?

A That's going back to page 14.

Q All right.

A Where it says comparable company analysis. And that's the analysis that is shown down below where I actually looked at two different parameters. I looked at last 12 months EBITDA and last 12 months EBITDAR and the 2001 projected EBITDA AND EBITDAR.

Q All right. Now -- excuse me. Let me just stop you there, Mr. Becklean.

A Yes.

Q Why did you choose those financial -- those pieces of financial information as opposed to any others?

A Well, it is my belief, and I believe that Mr. Schulte this morning said exactly the same thing, that the more data points you have, the better, and in fact, as I recall from his testimony, he made a pretty strong case to use last 12 months data as opposed to forecast data because it's hard actual data. I mean, it's the only real set of numbers that you've got. The projections are subject to all kinds of subjective, you know,

guesses. I chose to accept them as they were, but they clearly are projections with which one could potentially raise one or a number of questions.

But at the time that I did this analysis, the only numbers that I had available were the last 12 month numbers and the 2001 projected numbers. Now, it was -- it became apparent to me when I saw the updated reports from Warburg and CSFB that they had received 2002 projected numbers from the company, but I did not have access to those and I have not included those. Had I had access to those, I would have put them into the report.

Now, one thing I would note, and it came up yesterday in the testimony from the two bankers that presented their reports, Warburg did not use EBITDA numbers at all, although this morning Mr. Schulte argued -- I see some questioning looks on people's faces --

Q You said they did not use EBITDA numbers at all?

A They did not use EBITDA numbers in their evaluation. They calculated the EBITDA ratio, but I mean -- I beg your pardon. Let me correct myself. I meant last 12 month data. Thank you. They did not use last 12 month data at all. The CSFB banker did use last 12 month data, but fundamentally he said he tended to disregard it. I think that was directly contradicted this morning by Mr. Schulte who made the argument that last 12 month data is the best data to work with and there are inherent

issues when you start looking at projections.

So, short story out of a long discussion is I used the last 12 month EBITDA and EBITDAR, the 2001 projected EBITDA and EBITDAR as the best set of numbers that I had available to me.

Q All right. Have you now finished your explanation to the Court of how you performed your comparable company analysis?

A I have.

Q All right. You testified some minutes ago that you did a second analysis, a so called discounted cash flow analysis. Could you explain briefly what you did there, again, pinpointing to the report if that is helpful.

A Yes. My discounted cash flow analysis is shown on page 20. A summary of it is shown on page 19. The summary results are shown on page 19. I performed a standard discounted cash flow analysis. There is a weighted average cost of capital calculation that's shown on page 21. I ended up using a 10 percent weighed average cost of capital, which is pretty much consistent with all the other reports that I've seen here, so I take no issue of that whatsoever.

I do take issue with one thing. By the way, in the cash flows that I use were generated simply by adding the cash flows from the two companies that I got from the investment banking reports. They were the projections given to the bankers by the company. So, I did not adjust those in any way.

Those are numbers everyone is working with.

The one -- part of this calculation that I took some issue with, and Mr. Schulte addressed the same thing this morning, I believe it was Mr. Schulte, that is thē -- of this calculation to your selection of the terminal value to apply to the final five year EBITDA. He represented that it reflected a big part of the calculation. I'll tell you it represents about 70 percent of calculation.

So, the terminal value that you assume in this case at year five, which was what all the other EBITDA analysis that I have seen in connection with this case use, that figure at year five of a terminal value which you get by applying a multiplier to the last year's cash flow, that ultimately represents 70 percent of the present value that you end up calculating. So, that is what I call an heroic assumption. It basically drives everything, which is why I tend and other people tend to discount, if you'll forgive -- the value of a DCF calculation because there's just -- there's one big assumption in there that's just huge and you can see the range that it drives. A lot of numbers have been floated around -- every report, these -- the numbers that they use for the terminal value EBITDA multiple in a DCF calculation have been pretty broad. I showed the full range. I basically looked at the --

Q What page, Mr. Becklean, please?

A We're still on page -- we're still on page 20.

Q Okay.

A You can see that the terminal value EBITDA multiples that I basically chose to look at range from 6.5 times to 10 times. And the reason for my selection of that range is it represents the current last 12 month EBITDA to enterprise value multiples of the comparable companies which range from 7.7 to 11.6 times. So, I just carved off roughly 10 percent at each end and then looked at the potential range you could select.

I basically opted in my conclusion to say that I think that the DCF calculation provides a fundamental for that ought to represent the fundamental minimum valuation of any of these companies, but shouldn't provide a limit to the upside. I think that the comparable company valuation ought to be given a lot more consideration and has more merit than the DCF calculation.

Q All right. You mentioned your conclusions. I'm sorry, let me back up. Have you now finished your explanation to the Court of what you did in connection with your discounted cash flow analysis?

A Yes, I have.

Q All right. You mentioned conclusions a minute ago. Is there conclusions somewhere in your report?

A I have a conclusion page on page 22.

Q All right. Could you explain what your conclusions are,